Combined Financial Statements

State of South Carolina
Deferred Compensation Program

Year ended December 31, 2018

Administered by the
South Carolina Public
Employee Benefit Authority
Columbia, South Carolina

Contents

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Members
South Carolina Public Employee Benefit Authority
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying combined statements of fiduciary net position and changes in fiduciary net position of the State of South Carolina Deferred Compensation Program (the Program), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Program as of December 31, 2018, and the results of its operations for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Audit Standards*, we have also issued our report dated August 20, 2019, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
August 20, 2019

This section presents management's discussion and analysis of the financial position and performance of the State of South Carolina Deferred Compensation Program (Deferred Comp) and is intended to provide an overview of Deferred Comp's financial activities as of and for the years ended December 31, 2018 and 2017. It is intended to be a narrative supplement to Deferred Comp's financial statements.

Deferred Comp's financial statements provide information about the activities of the two defined contribution plans administered, which are listed below.

- Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan); and
- South Carolina 457 Deferred Compensation Plan and Trust (457 plan)

Overview of the Financial Statements

Because of the long-term nature of a deferred compensation program, financial statements alone cannot provide sufficient information to properly reflect Deferred Comp's ongoing plan perspective. This financial report consists of two financial statements and the notes to the financial statements.

The *Combined Statement of Fiduciary Net Position* reports Deferred Comp's assets, liabilities and resulting net position where Assets - Liabilities = Fiduciary Net Position Held in Trust at the end of the year. It can be thought of as a snapshot of the financial position of Deferred Comp at a specific point in time.

The *Combined Statement of Changes in Fiduciary Net Position* reports Deferred Comp's transactions that occurred during the year where Additions - Deductions = Change in Fiduciary Net Position. It can be thought of as a recording of events that occurred over the specified time period of a year and supports the changes that have occurred to the prior year's fiduciary net position value on the Combined Statement of Fiduciary Net Position.

The *Notes to the Combined Financial Statements* are an integral part of the financial statements and include additional information not readily evident in the statements themselves.

Plan Highlights

The following highlights occurred during the year ended December 31, 2018:

- Participation experienced a slight decrease from the prior year in both the 401(k) and 457 plans. In the 401(k) plan, there were 76,043 and 76,290 participant accounts, and in the 457 plan there were 23,366 and 23,647 participant accounts, at the end of the 2018 and 2017 fiscal years, respectively.
- Fiduciary net position held in trust decreased by $150.6 million during 2018. This is compared to an increase of $442.9 million in 2017. The decrease from the prior year was largely attributable to a decline in investment values during 2018.
- Net investment earnings decreased by approximately $596 million in 2018 compared to an increase of $214 million in 2017. The decrease in 2018 was the result of market losses.
- Contributions grew in 2018 by $85.4 million, or 32.24 percent, when compared to contributions in 2017. Deferred Comp again saw a rise in the amount of rollovers into plan accounts, which accounted for just over $79 million of the growth. The primary driver was rollovers in from individuals ending their participation in the South Carolina Retirement System's Teacher and Employee Retention Incentive (TERI) program.
- Distributions rose approximately $81.9 million, or 28.94 percent, from 2017 to 2018. Increases in rollovers out of plan accounts, payments to participants, and the number of death claims all contributed to the upsurge.
- Miscellaneous income, which consists primarily of revenue sharing credited back to participants, decreased marginally during the year due to the replacement of a fund that participated in revenue sharing.
- Administrative fees and expenses increased slightly in the current year primarily due to the increase in participant account balances generating larger third party administrator recordkeeping fees.

Summary comparative statements

Fiduciary Net Position	**December 31,**		**Increase/ (Decrease) Amount**	**Increase/ (Decrease) Percent**
	2018	**2017**		
Assets				
Fixed income investments	$1,492,441,791	$1,545,795,948	$ (53,354,157)	(3.45)%
Variable earning investments	2,672,360,297	2,768,035,398	(95,675,101)	(3.46)%
Receivables	33,380,511	34,827,008	(1,446,497)	(4.15)%
Total assets	4,198,182,599	4,348,658,354	(150,475,755)	(3.46)%
Liabilities				
Accounts payable	1,228,849	1,092,652	136,197	12.46 %
Total liabilities	1,228,849	1,092,652	136,197	12.46 %
Fiduciary Net Position Held in Trust, end of year	$4,196,953,750	$4,347,565,702	$ (150,611,952)	(3.46)%

Changes in Fiduciary Net Position	**For the years ended December 31,**		**Increase/ (Decrease) Amount**	**Increase/ (Decrease) Percent**
	2018	**2017**		
Additions				
Net investment earnings/(losses)	$(130,336,444)	$ 465,903,957	$ (596,240,401)	(127.97)%
Contributions	350,346,149	264,930,541	85,415,608	32.24 %
Miscellaneous income	1,355,485	1,432,402	(76,917)	(5.37)%
Total additions	221,365,190	732,266,900	(510,901,710)	(69.77)%
Deductions				
Distributions	364,939,375	283,035,355	81,904,020	28.94 %
Administrative expenses and fees	7,037,767	6,334,197	703,570	11.11 %
Total deductions	371,977,142	289,369,552	82,607,590	28.55 %
Change in Fiduciary Net Position	(150,611,952)	442,897,348	(593,509,300)	(134.01)%
Fiduciary Net Position Held in Trust,				
Beginning of year	4,347,565,702	3,904,668,354	442,897,348	11.34 %
End of year	$4,196,953,750	$4,347,565,702	$ (150,611,952)	(3.46)%

Requests for Information

This financial report is designed to provide a general overview of the South Carolina Deferred Compensation Program. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the South Carolina Public Employee Benefit Authority, 202 Arbor Lake Drive, Columbia, SC 29223. Inquiries may also be made at www.peba.sc.gov or by calling 888.260.9430.

State of South Carolina Deferred Compensation Program

Combined Statement of Fiduciary Net Position

December 31, 2018

	457 Plan	401(k) Plan	Total
Assets			
Fixed income investments			
Stable value fund	$ 295,428,679	$ 1,017,651,557	$ 1,313,080,236
84-month guaranteed investment contracts	59,518,203	119,843,352	179,361,555
Total fixed income investments	354,946,882	1,137,494,909	1,492,441,791
Variable earning investments			
Mutual funds	383,858,325	1,554,896,913	1,938,755,237
Target retirement funds	173,742,975	430,040,674	603,783,649
Collective investment trusts	21,956,165	91,292,964	113,249,130
Schwab self-directed brokerage account	5,437,062	11,135,219	16,572,281
Total variable earning investments	584,994,527	2,087,365,770	2,672,360,297
Receivables			
Notes receivable from participants	4,705,460	28,451,070	33,156,530
Contributions receivable	40,709	183,272	223,981
Total receivables	4,746,169	28,634,342	33,380,511
Total assets	944,687,578	3,253,495,021	4,198,182,599
Liabilities			
Accounts payable	778,507	450,342	1,228,849
Total liabilities	778,507	450,342	1,228,849
Fiduciary Net Position Held in Trust	$ 943,909,071	$ 3,253,044,679	$ 4,196,953,750

See Notes to Combined Financial Statements

State of South Carolina Deferred Compensation Program

Combined Statement of Changes in Fiduciary Net Position
For the year ended December 31, 2018

	457 Plan	401(k) Plan	Total
Additions			
Investment income	$ 34,527,034	$ 128,537,873	$ 163,064,907
Net appreciation (depreciation) in value of investments	(61,533,544)	(231,867,807)	(293,401,351)
Net investment loss	(27,006,510)	(103,329,934)	(130,336,444)
Contributions from participants	44,628,941	299,543,998	344,172,939
Contributions from employers	-	6,173,210	6,173,210
Total contributions	44,628,941	305,717,208	350,346,149
Miscellaneous income	277,743	1,077,742	1,355,485
Total additions	17,900,174	203,465,016	221,365,190
Deductions			
Distributions	81,632,361	283,307,014	364,939,375
Participant fees	1,246,629	4,554,815	5,801,444
Administrative expenses	248,284	988,039	1,236,323
Total deductions	83,127,274	288,849,868	371,977,142
Change in Fiduciary Net Position	(65,227,100)	(85,384,852)	(150,611,952)
Fiduciary Net Position Held in Trust,			
Beginning of year	1,009,136,171	3,338,429,531	4,347,565,702
End of year	$ 943,909,071	$ 3,253,044,679	$ 4,196,953,750

See Notes to Combined Financial Statements

Note 1. General Description of Deferred Comp

The financial statements of the South Carolina Deferred Compensation Program (Deferred Comp) are provided for general information only. Users of the financial statements should refer to the plan documents for complete information. The statements presented herein contain the following defined contribution plans:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** - the plan was established by the South Carolina General Assembly on May 11, 1977 through Act 97. Enrollment in the 457 plan began in August 1980, and the first contributions were made in September 1980; and
- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** - the plan was established by the South Carolina Deferred Compensation Commission (the Commission) effective January 1, 1985. Contributions to the Plan began in October 1985.

The Commission, established in Chapter 23 of Title 8 of the State of South Carolina (the State) Code of Laws, was the trustee of Deferred Comp through December 31, 2013. Effective after December 31, 2013, the Commission was abolished and all of the functions and duties of the Commission were devolved upon the Board of Directors of the South Carolina Public Employee Benefit Authority (PEBA). PEBA was created by the S.C. General Assembly effective July 1, 2012 and is the state agency responsible for the administration and management of the state's employee insurance programs and retirement systems.

The PEBA Board consists of 11 members including:

- three non-representative members appointed by the Governor;
- two members appointed by the President Pro Tempore of the Senate, one a non-representative member and one a representative member who is either an active or retired member of the South Carolina Police Officers Retirement System (PORS);
- two members appointed by the Chairman of the Senate Finance Committee, one a non-representative member and one a representative member who is a retired member of the South Carolina Retirement System (SCRS);
- two members appointed by the Speaker of the House of Representatives, one a non-representative member and one a representative member who must be a state employee who is an active contributing member of SCRS; and
- two members appointed by the Chairman of the House Ways and Means Committee, one a non-representative member and one a representative member who is an active contributing member of SCRS employed by a public school district.

Non-representative members of the PEBA board may not belong to the classes of employees and retirees from which representative members must be appointed. Individuals appointed to the PEBA board must possesses certain qualifications and are appointed to serve for terms of two years and until their successors are appointed and qualify. Vacancies on the PEBA Board must be filled within 60 days in the manner of the original appointment for the unexpired portion of the term. Terms commence on July first of even numbered years.

In August 2014, PEBA selected Great-West Retirement Services (Great-West) as the third party administrator for Deferred Comp effective January 1, 2015. Subsequently, in October 2014, Great-West was renamed Empower Retirement. In August 2019, PEBA chose Empower Retirement as the third party administrator for Deferred Comp effective January 1, 2020.

Approximately 739 South Carolina public sector entities (the employers) participate in Deferred Comp. These entities include state agencies, counties, municipalities, colleges and universities, and special purpose districts. State agencies are reported as one employer in the number of participating employers above.

Note 1. General Description of Deferred Comp (continued)

Eligibility:

In accordance with Deferred Comp provisions, any employee of a participating employer who elects to participate in Deferred Comp is eligible. Contributions to Deferred Comp are made through payroll deductions from an employee's total compensation subject to certain limits. At December 31, 2018 there were 23,366 participant accounts in the 457 plan and 76,043 participant accounts in the 401(k) plan.

Contributions:

Deferred Comp participants elect salary deferral contributions to reduce their compensation by not less than $10 per pay period and not more than 100 percent of their compensation; not to exceed the maximum contribution allowed by the IRS. An election must be made in dollar increments per pay period. Amounts contributed on a pre-tax basis by participants are deferred, subject to the limitations above, for federal and state income tax purposes until distributions are paid to the participants.

Contribution limits for 2018 for the plans were as follows:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** –
  - $18,500 for under age 50
  - $24,500 for age 50 and older (with age 50+ catch-up contribution)
  - Up to $37,000 with Special 457(b) catch up (cannot be combined with age 50+ catch-up)

  Effective January 1, 2009, the 457 plan was amended to provide for matching contributions at the discretion of the employer. This amendment permits employers to make contributions to the 457 plan on behalf of each employee who is a participant and who is active during the plan year at an amount to be determined by the employer. Contribution limits are the same whether the contribution is made by the employee or by the employer.

  Effective January 1, 2011, the 457 plan was amended to provide for Roth contributions. This amendment permits employees to contribute to the 457 plan with after-tax dollars.

- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** –
  - $18,500 for under age 50
  - $24,500 for age 50 and older (with age 50+ catch-up contribution)

  Effective July 1, 1999, the 401(k) plan was amended to provide for employer matching contributions. This amendment permits employers to make contributions to the 401(k) plan on behalf of each employee who is a participant and who is active during the plan year at an amount to be determined by the employer. Furthermore, the 401(k) plan was amended to provide for discretionary employer contributions, permitting an employer to make contributions to the plan on behalf of each employee who has not elected to make salary deferral contributions and who has an annual salary of less than $20,000 during such plan year. Employer matching and discretionary contributions shall not exceed contribution limitations as specified by the plan.

  Effective November 2, 2009, the 401(k) plan was amended to provide for Roth contributions. This amendment permits employees to contribute to the 401(k) plan with after-tax dollars.

Participant accounts:

Each participant's account is credited with the participant's salary deferral contributions, employer discretionary contributions, and plan earnings or losses, and charged with an allocation of third party administrator recordkeeping fees, investment option fees, and program administration fees.

Note 1. General Description of Deferred Comp (continued)

Vesting:

Participants are vested immediately in both their employee and employer contributions plus actual earnings thereon.

Distributions:

Participants may withdraw the present value of funds contributed to Deferred Comp based on the following:

- **State of South Carolina 457 Deferred Compensation Plan and Trust (457 plan)** –
  - severance of employment from a participating employer, or
  - due to unforeseen emergency, which requires approval of Empower on behalf of PEBA.
- **State of South Carolina Salary Deferral [401(k)] and Savings Profit Sharing Plan and Trust (401(k) plan)** –
  - severance of employment from a participating employer,
  - attainment of age 59½, or
  - due to financial hardship, which requires approval of Empower on behalf of PEBA.

Participants are also allowed to take a rollover from their Deferred Comp account in order to purchase service credit in a defined benefit governmental plan such as the South Carolina Retirement System. In the event of a participant's death, the participant's beneficiary would be entitled to the present value of funds contributed to Deferred Comp.

Participants may select various payout options including lump-sum payments or installment payments for the following: a fixed period of time, a fixed dollar amount until the account is exhausted, or payments throughout the participants' life expectancy or joint life expectancy with a spouse.

Notes receivable from participants:

Participants may borrow from their Deferred Comp account provided the note is at least $2,500 and not more than the greater of 50 percent of their vested account balance or $50,000. Notes are repayable in one to five years except for notes for the purchase of a primary residence which may be paid back over twenty years. Interest is charged at a fixed rate over the term of the note. The note's interest rate is established based upon a prime interest rate plus an additional 2 percent, as listed in the Wall Street Journal on the last business day of the month prior to origination. Interest rates charged on participant notes ranged from 5.25 percent to 11.50 percent for the year ended December 31, 2018. The participant is charged a $50 issuance fee at the initiation of the note and a quarterly maintenance fee of $6.25 throughout the year.

If a participant fails to repay a note at maturity or fails to make a scheduled payment by the end of the quarter following the quarter in which the payment was due, the note plus accrued interest is considered to be in default. Due to Internal Revenue Service (IRS) recordkeeping regulations, if a defaulted note was issued after January 1, 2002, and the participant is still active, the note remains on Deferred Comp's books. Management believes it is unlikely that such notes will be repaid since they have been reported to the participant and the IRS as withdrawals from the Plan. Therefore, management has excluded defaulted notes from notes receivable. Notes receivable from participants are valued at their unpaid balances plus accrued interest.

Accounts payable:

Deferred Comp holds funds related to unclaimed benefit payments in a separate forfeiture account until such time that those payments are reissued. The funds are considered payable and are therefore classified as accounts payable in Deferred Comp's financial statements.

Note 2. Summary of Significant Accounting Policies

The financial statements of Deferred Comp have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following are the significant accounting policies used in preparing the accompanying financial statements of Deferred Comp.

Basis of accounting:

The financial statements have been prepared in accordance with GAAP, including all applicable effective statements of the GASB and the accrual basis of accounting.

Use of estimates:

The preparation of financial statements in conformity with GAAP requires PEBA to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the changes therein and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Contributions and contributions receivable

Contributions are recognized when amounts are withheld from employees. Contributions receivable represents amounts withheld from employees but not yet remitted to the third party administrator at December 31.

Distributions

Participant withdrawals are recorded when due and payable under the provisions of Deferred Comp.

Investment valuation and income recognition:

Variable earning investments are stated at fair value. If available, quoted market prices are used to value investments. Units of target retirement funds are stated at fair value as provided by their issuer, State Street Global Advisors, based on quoted market prices of the investments held in the collective trust fund.

Investments in the Stable Value Fund are valued at contract value reported daily by Great-West Life & Annuity Insurance Company, which approximates fair value. The investment valuation includes contributions received plus investment income earned to date less applicable fees and amounts withdrawn.

Management considers 84-month Guaranteed Investment Contracts (84 month GICs) to be “nonparticipating contracts” as defined in the GASB Codification Sec. I50, Investments, as they are nonnegotiable and have redemption terms that do not consider future market rates. 84-month GICs are therefore valued at contract value, as estimated by the respective insurance companies. The reported balance at December 31, 2018, represents contributions received plus interest credited, less applicable charges and amounts withdrawn.

Purchases and sales of securities are recorded on a trade-date basis. Variable earning investment income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net realized and unrealized gains and losses on investments are included in the net appreciation in fair value of investments as reported on the combined statement of changes in fiduciary net position. Interest on participant loans is recorded as earned on the accrual basis.

Administrative expenses:

All direct expenses of maintaining Deferred Comp are paid from Deferred Comp’s net position.

Note 2. Summary of Significant Accounting Policies (continued)

Subsequent events:

These financial statements have not been updated for events occurring subsequent to August 20, 2019, which is the date these financial statements were available to be issued.

Note 3. Investments

Deferred Comp investments are managed by several fund managers and are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. Each one of these risks is discussed in more detail below.

Custodial credit risk:

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the custodian, Deferred Comp would not be able to recover the value of investments or collateral securities that are in the possession of the third-party. Deferred Comp's investment securities are exposed to a minimal level of custodial credit risk as they are held in segregated trust accounts with the custodian but in the name of Deferred Comp.

Credit risk:

Credit risk is the risk that an issuer or the counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investor Services (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch). Deferred Comp manages the overall credit risk of its fixed income investments by requiring the Stable Value Fund and 84-month GIC's manager, Great-West Life & Annuity Insurance Company (the Company), to invest in accordance with PEBA's approved Statement of Investment Policy (the Policy).

The Policy lists the primary objective of the Stable Value Fund to preserve principal and provide a stable, competitive rate of return. The Company is permitted to invest Deferred Comp assets in investment grade fixed income instruments, including those of the U.S. Government and its agencies, corporate bonds, and mortgage and asset-backed securities. According to the Company's contract with Deferred Comp (the Contract), the Company must maintain or exceed an overall weighted average credit quality rating by Moody's of "Aa2" (or equivalent of Aa2) within the Stable Value Fund at all times. At the time of issuance, investments must meet or exceed the following Moody's credit ratings: Commercial paper - P; Corporate bonds - A3; and Asset backed securities, agency-mortgage backed securities, agency-collateralized mortgage obligations, and commercial mortgage backed securities – Aaa.

The primary objective for the 84-month GICs is to preserve principal while maintaining a rate of return comparable to similar fixed income investments without market fluctuations. Each 84-month GIC is backed by the financial strength of the issuing company, whose crediting must exceed an "A2" rating (or equivalent of A2) as measured by Moody's at the time of issuance. The Company is expected to exercise due care and diligence in making investment decisions.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The concentration of investments are determined by the participants' elections to invest in the available investment options as selected by the Board. Mutual funds and target date funds that exceed 5 percent of fiduciary net position held in trust are identified in Note 6 on page 16.

PEBA places no limit on the amount Deferred Comp may invest in any one 84-month GIC issuer. At December 31, 2018, there were no GIC issuers holding contracts that exceed 5 percent of fiduciary net position held in trust.

Note 3. Investments (continued)

The Stable Value Fund balance at December 31, 2018, exceeded 5 percent of fiduciary net position held in trust. The Contract dictates that amounts in the fund must be invested in accordance with the following concentration limits:

- A minimum of 50 percent of the account assets must be invested in U.S. Treasury debt, agency-mortgage backed securities or collateralized mortgage obligations.
- A maximum of 35 percent of the account assets may be invested in corporate bonds or asset-backed securities.
- A maximum of 20 percent of the account assets may be invested individually in either corporate bonds or asset-backed securities.
- No more than 10 percent of the account assets may be invested in corporate securities rated “BBB” as measured by Moody’s.
- No more than 5 percent of the account assets may be invested in any one corporate issuer (including asset-backed securities). For purposes of diversification, each asset-backed or non-agency mortgage-backed securities will be treated as a separate issuer.

Foreign currency risk:

Foreign currency risk is the risk that changes in exchange rates could adversely affect the fair value of an investment. Deferred Comp allows the option to invest in mutual funds of countries outside of the U.S that invest in securities not required to disclose the individual assets within the fund. Such international funds are identified in Note 6 on page 16.

Interest rate risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a theoretical measurement that gauges the sensitivity of a particular bond to changes in interest rates based on current prepayment speeds and scheduled interest payments. The Contract limits the Stable Value Fund’s average duration to not exceed 5 years. The Stable Value Fund’s average duration at December 31, 2018 was 3.2 years. Investment in guaranteed investment contracts and funding agreements is limited to a term of 84 months or less. Refer to Footnote 4, Stable Value Fund, and Footnote 5, 84-month Guaranteed Investment Contracts for tables summarizing the fixed income investments by their credit rating and future maturities.

Fair Value Measurements:

Fair value measurements are categorized within the fair value hierarchy defined in GASB 72. The hierarchy is based on the valuation inputs used to measure the fair value of the assets and consists of three levels as follows:

Level 1 inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that a reporting entity can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 inputs: Inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs: Unobservable inputs for an asset or liability. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, Deferred Comp utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

Note 3. Investments (continued)

Deferred Comp had the following recurring fair value measurements as of December 31, 2018:

		Fair Value Measurements Using		
	At 12.31.2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments at fair value				
Mutual funds	$ 1,938,755,237	$ 1,938,755,237	$ -	$ -
Target retirement funds	603,783,649	-	603,783,649	-
Self-directed brokerage	16,572,281	16,572,281	-	-
Total investments at fair value	$ 2,559,111,167	$ 1,955,327,518	$ 603,783,649	$ -
Investments at net asset value (NAV)				
Collective investment trusts	$ 113,249,130			
Investments at contract value				
Stable value fund	$ 1,313,080,236			
84-month guaranteed investment contracts	179,361,555			
Total investments at contract value	$ 1,492,441,791			
Total investments	$ 4,164,802,088			

Mutual funds and self-directed brokerage: These investments are stated at the fair value of shares held by the plans at year-end, which are determined by quoted market prices.

Target retirement funds: This investment type includes 11 funds that are invested through collective trust funds. There is no quoted price in an active market to determine the fair value of the investment, but the value is determined daily by the investment manager based upon the value of the underlying assets using significant other observable inputs.

Collective investment trusts: This investment type includes one fund that invests primarily in non-U.S. common stocks. The fair value of the investment has been determined using NAV per share of the fund as reported by the Investment Manager.

Additionally, there were no unfunded commitments or redemption notice periods for investments measured at the net asset value.

Note 4. Stable Value Fund

The Stable Value Fund (the Fund) is an investment option of Deferred Comp in which bond securities are held as underlying investments in a segregated trust for participants. The Company is the Fund manager for Deferred Comp. All monies invested in the Fund are maintained and held separate and apart from the Company's general account and any other investment account the Company may have. In addition, the Company has assumed sole responsibility of providing wrap coverage in order to guarantee return of the participants' principal and accrued interest.

This investment seeks to preserve principal value and provide a relatively stable rate of interest income. The objective of the Fund is to achieve returns, which over time exceed the returns on bank savings accounts and money market funds. The Fund invests in securities issued by the U.S. Government or one of its agencies, as well as high-grade corporate bonds, and mortgage and asset-backed securities.

Note 4. Stable Value Fund (continued)

Quarterly interest rates are declared by the Company prior to each calendar quarter for participant accounts based upon factors such as the current yield of the investments held by the Fund and Fund expenses. Once declared, the effective interest rates are guaranteed for the calendar quarter. The quarterly effective interest rate declared each calendar quarter applies to all assets in the Fund regardless of the date of deposit. Interest is credited to the participants' accounts in the Fund daily, at a rate which compounds to the effective rate for the quarter.

The following represents the Fund's annual interest rate credited to participants for the quarters during the year ended December 31, 2018:

1Q 2018	2.20%
2Q 2018	2.25%
3Q 2018	2.25%
4Q 2018	2.30%

The following represents the contract value of the Fund's underlying investments by fixed income sector at December 31, 2018:

Fixed Income Sector		December 31, 2018
Agency - Mortgage Backed Securities	$	668,731,344
Agency - Collateralized Mortgage Obligations		38,626,874
Agency - Commercial Mortgage Backed Securities		157,846,410
Agency Securities		4,966,046
Asset Backed Securities		121,656,445
Non-Agency – Commercial Mortgage Backed Securities		46,538,100
Corporate Bonds		245,269,189
Cash and Equivalents		29,445,828
Total	**$**	**1,313,080,236**

The following represents the contract value of the Fund's underlying investments by their Moody's Credit Rating at December 31, 2018:

Moody's Credit Rating		December 31, 2018
Aaa	$	976,893,515
Aa1		2,996,293
Aa2		9,460,034
A1		19,455,401
A2		21,765,686
A3		51,158,443
Ba1		3,501,275
Baa1		19,555,208
Baa2		60,411,019
Baa3		54,191,921
WR		7,820,095
P-1		24,460,472
Not Rated		61,410,875
Total	**$**	**1,313,080,236**

Note 4. Stable Value Fund (continued)

The following represents the contract value of the Fund's underlying investments by their future maturities at December 31, 2018:

Maturities in Years	December 31, 2018
Less than 1	$ 39,649,870
1-5	276,792,876
5-10	360,380,139
10-15	365,220,090
15 - 20	30,740,230
20 - 25	77,570,026
25 - 30	81,101,883
More than 30	81,625,120
Total	**$ 1,313,080,236**

Mortgage backed securities and collateralized mortgage obligations make up the majority of investments with maturities exceeding 10 years. The fair values of these securities are based on cash flows from principal and interest payments of the underlying mortgages and are subject to the credit worthiness of the individual mortgagors. These securities are sensitive to prepayments, which are likely in an environment of declining interest rates, and thereby reduce the value of the security.

Note 5. 84-Month Guaranteed Investment Contracts

84-month GICs are deposited quarterly with insurance companies who invest the funds in their general asset account. The insurance companies provide a guarantee of principal and a guaranteed quarterly interest rate. As such, the 84-month GICs are subject to credit risk associated with the individual insurance company issuer. Each participant does not have access to the 84-month GIC until the 84-month maturity period is over. Effective January 1, 2015, the 84-month GIC was discontinued as an investment option in Deferred Comp.

The following are the interest rate ranges by year for 84-month GICs based on the date purchased:

Rates in effect during year purchased			
2012	**2013**	**2014**	**2015**
1.65-2.25%	1.30-2.05%	1.75-1.85%	1.80%

The following represents a summary of each 84-month GIC issuer, Moody's credit rating, and future maturities at December 31, 2018:

		December 31, 2018		
	Moody's Credit Rating	Maturities in Years		
		Less than 1	1 - 3	Total
Great-West Life & Annuity Insurance Company	Aa3	$ 43,974,774	$ 135,386,781	$ 179,361,555

Note 6. Variable earning investments

Deferred Comp's variable earning investments are held by the custodian in pooled separate accounts. The following represents the fair value of Deferred Comp's units of participation at December 31, 2018:

		December 31, 2018	
Mutual funds			
Vanguard Institutional Index	$	577,294,393	*
Dodge and Cox Stock		261,546,340	*
T. Rowe Price Growth Stock		240,375,756	*
T. Rowe Price Mid Cap Value		198,388,342	
Baird Aggregate Bond Fund		171,781,639	
Hartford Mid Cap Fund		135,951,448	
American Funds EuroPacific Growth R6		120,793,829	**
Fidelity Inflation Protected Bond Index		65,797,227	
AllianceBerstein Small Cap Growth		60,270,332	
American Funds New Perspective		51,225,461	**
TIAA CREF Small Cap Blend		28,058,572	
American Beacon Small Cap Value		27,271,899	
	$	**1,938,755,237**	

Target retirement funds				**Effective Duration**
SSgA Target Retirement Income	$	304,203,620	*	2.55
SSgA Target Retirement 2020		121,210,421		2.93
SSgA Target Retirement 2030		90,433,201		2.89
SSgA Target Retirement 2040		49,775,996		2.08
SSgA Target Retirement 2025		17,015,068		2.95
SSgA Target Retirement 2050		7,943,856		1.73
SSgA Target Retirement 2035		5,010,121		2.40
SSgA Target Retirement 2045		3,653,907		1.79
SSgA Target Retirement 2015		2,139,893		2.63
SSgA Target Retirement 2060		1,514,602		1.73
SSgA Target Retirement 2055		882,964		1.73
	$	**603,783,649**		

Collective investment trusts			
Fidelity Diversified International		113,249,130	**
	$	**113,249,130**	

* Represents investments exceeding 5 percent or more of net position.
** Represents international funds.

Note 7. Schwab Self-Directed Brokerage Account

Effective January 1, 2010, Deferred Comp participants have the option to invest in a self-directed brokerage account. The self- directed brokerage account is offered through Charles Schwab & Co., Inc. and allows participants to select from numerous mutual funds and other types of securities, such as stocks and bonds, for an additional fee or fees. As of December 31, 2018, the balance invested in the Schwab self-directed brokerage account was $16,572,282.

Note 8. Program Termination

Currently, there are no intentions to terminate either of the plans within Deferred Comp. However, the State reserves the right to terminate, suspend, withdraw or amend Deferred Comp at any time.

Note 9. Tax Status

The 457 plan received a favorable determination from the Internal Revenue Service (IRS), stating the plan constitutes an eligible deferred compensation plan as defined in Section 457(b) of the Internal Revenue Code (IRC), and, as such, is exempt from federal and state income taxes. Amounts of compensation deferred by employees participating in the 457 plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate.

The 401(k) plan received a favorable determination from the IRS as qualifying under Section 401(k) of the IRC and, as such, is also exempt from federal and state income taxes. As a result, amounts of compensation deferred by employees participating in the 401(k) plan are not subject to federal income tax withholding, and the compensation is not includable in taxable income until actually paid or otherwise made available to the participant, his beneficiary or his estate.

Accounting principles generally accepted in the United States of America require Deferred Comp management to evaluate tax positions taken by Deferred Comp and recognize a tax liability (or asset) if Deferred Comp has taken an uncertain position that more likely than not would not be substantiated upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by Deferred Comp, and has concluded that as of December 31, 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Note 10. Risks and Uncertainties

Deferred Comp invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the combined statement of fiduciary net position.

Note 11. Commitments

Effective July 1, 2017, PEBA entered into an agreement with Deferred Comp’s investment consultant that runs through June 30, 2020, and requires an annual fee of $58,000, payable in four equal quarterly installments. Costs associated with the investment consultant contract are shared pro-rata between the 457 plan and the 401(k) plan, based upon plan assets under management.